

TAX SNAPSHOT

The new 2024/25 Individual Tax Rates

– At what level of Taxable Income will a resident individual pay less than a company taxpayer?

On 26 January 2024, Treasury released at <https://treasury.gov.au/tax-cuts> a Government fact sheet, media release, online calculator and other details confirming individual tax rate changes now proposed to replace currently legislated 'Stage 3' tax cuts from 2024/25. For those who are well advanced with 2024/25 tax planning (for clients or themselves) the proposed new 2024/25 rates will change various tax planning outcomes which might have been anticipated under the Stage 3 cuts.

This Tax Astute Training Snapshot provides additional details which may be relevant for purposes of 2024/25 tax planning, with a focus on the taxable income amount at which an individual's total income tax and Medicare Levy payable will equal company tax payable at either the 30% or 25% respectively.

It is recognised that tax payable is far from the only reason why a company might receive a trust distribution or otherwise be used as a business or investment vehicle. However, as explained below, changes to the taxable income amount which yields an equal amount payable by either an individual or company taxpayer remains relevant for a variety of 2024/25 tax planning purposes including, but not limited to:

- trust distribution and other general tax planning;
- Division 7A /ITAA 1936 loan decisions; and
- managing integrity rule risks such as Part IVA and s 100A /ITAA 1936 (including application of [PCG 2021/4](#) regarding the application of professional firm profits by individual professional practitioners).

This Tax Astute Training snapshot provides an overview comparison of:

- the current 2023/24 tax rates (Column A of each table);
- the new position under the proposed new 2024/25 rates officially announced on 26 January 2024 (Column B of each table); and
- what would have happened if the currently legislated Stage 3 tax cuts had applied from 2024/25 (Column C of each table).

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Comparative outcomes are explained using:

- A restated table of the above 3 outcomes without 2% Medicare Levy and offsets (i.e. in the format generally used by the ATO (e.g. see link below) and tips for using the 26 January information released by Treasury – see below.
- An explanation of why understanding the taxable income level at which resident individual tax and Medicare Levy payable matches company tax payable may be important – see page 4.
- A table and associated explanation of when resident individual tax and Medicare Levy payable match the amount a company would pay at a 30% or 25% company tax rate respectively (see pages and 7 and 8).
- Expected non-resident individual tax rate issues from page 10.

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The new 2024/25 Individual Tax Rates

– At what level of Taxable Income will a resident individual pay less than a company taxpayer?

What are the proposed new 2024/25 resident individual tax rates?

The Government Fact Sheet '[Tax cuts to help Australians with the cost of living](#)' (released by Treasury on 26 January 2024) provides useful distributional tables from page 3 onwards together with a 'tax cuts calculator' at <https://treasury.gov.au/tax-cuts>. Importantly, when reading these tables, note that the amounts stated **include** Medicare Levy and the Low Income Tax Offset (LITO) where relevant. This information is undoubtedly useful, but there can also be scenarios where tax planning requires an understanding of the tax payable **excluding** Medicare Levy and LITO (e.g. planning for the [PCG 2021/4](#) Professional Firm Profit Allocation Risk Factor 2 Effective Tax Rate calculation which is based on adjusted tax payable excluding these amounts – Tax Astute Training Clients can refer to their Client Guide for further analysis of PCG 2021/4 issues). The table below therefore restates the proposed new 2024/25 tax rates (see Column B) and, for comparative purposes, the original Stage 3 equivalent (see Column C) using the same format generally used by the ATO (see <https://www.ato.gov.au/tax-rates-and-codes/tax-rates-australian-residents>).

Resident Individual Tax Rates EXCLUDING Medicare Levy and Low Income Tax Offsets (LITO)					
2023/24 and earlier years (A)		2024/25 and later year newly announced tax rates (subject to future Royal Assent) (B)		2024/25 original 'Stage 3' outcomes which WOULD have applied (C)	
Taxable Income (\$)	Tax Calculation	Taxable Income (\$)	Tax Calculation	Taxable Income (\$)	Tax Calculation
0 – 18,200	NIL	0 – 18200	NIL	0 – 18200	NIL
18,201 – 45,000	19c per \$1 over \$18,200	18201 – 45000	16c per \$1 over \$18,200	18201 – 45000	19c per \$1 over \$18,200
45,001 - 120,000	\$5,092 + 32.5% for each \$1 over \$45,000	45,001 - 135,000	\$4,288 + 30% for each \$1 over \$45,000	45,001 - 200,000	\$5,092 + 30% for each \$1 over \$45,000
120,001 - 180,000	\$29,467 plus 37c for each \$1 over \$120,000	\$135,001 - \$190,000	\$31,288 plus 37c for each \$1 over \$135,000	\$200,001 and over	\$51,592 + 45c for each \$1 over \$200,000
180,001 & over	\$51,667 + 45c for each \$1 over \$180,000	190,001 and over	\$51,638 + 45c for each \$1 over \$190,000		

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– At what level of Taxable Income will a resident individual pay less than a company taxpayer?

When might it be useful to understand the level of taxable income at which corporate tax payable equals the total tax and Medicare levy payable by an individual?

While not an exhaustive list of relevant issues, the following table summarises some of the reasons why it can be useful to understand the taxable income level at or below which an individual will pay the same as (or less) tax and Medicare levy than a company taxpayer (at a flat rate of 30% or 25% - see pages 7 and 8 respectively for details).

Non-exhaustive issues where the taxable income level at which individual tax and Medicare Levy payable equals corporate tax payable may have relevance	
2024/25 and later year Tax Planning Issue	Further Notes
<p>Achieving effective and efficient tax planning whereby the most concessional amount is legally paid in relation to a trust distribution, income from a business or investment structure or similar (assuming no integrity rules such as Part IVA have been breached)</p>	<p>It should be noted that the headline tax and levy amount initially paid regarding an amount of taxable income is by no means the only relevant issue in relation to trust or other distributions or any other tax planning decisions.</p> <p>For example, there may be a variety of other relevant issues including, but not limited to, asset protection, business or investment cash flow needs, succession planning issues, greater tax residence certainty enjoyed by an Australian incorporated company or the further practical flexibility available after an initial distribution to a corporate beneficiary (e.g. including franking credit issues, the company's loss profile and/or where a discretionary trust shareholder is in place) and more.</p> <p>As always, consideration of Part IVA ITAA 1936 and other integrity rules is critical for any tax planning purpose – see also further comments at page 6 below.</p>

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– At what level of Taxable Income will a resident individual pay less than a company taxpayer?

Non-exhaustive issues where the taxable income level at which individual tax and Medicare Levy payable equals corporate tax payable may have relevance	
2024/25 and later year Tax Planning Issue	Further Notes
<p>Are the often significant Division 7A ITAA 1936 interest and other compliance costs warranted if the individual recipient of the loan would pay at or below the tax paid by the private company?</p>	<p>In a similar manner to the above table item on page 4, numerous non-tax rate issues may also be relevant to any Division 7A ITAA 1936 loan decision (i.e. whether a given individual should receive company funds via an assessable dividend or via a Division 7A ITAA 1936 compliant loan).</p> <p>Given that the 2024/25 Division 7A ITAA 1936 benchmark interest rate is likely to be a somewhat sobering 8.77% (based on the assumption that, as currently projected by economists, the current 8.77% Reserve Bank of Australia <i>‘Housing loans; Banks; Variable Standard; Owner-occupier rate’</i> remains unchanged by June 2024 – see this ATO link for details - https://www.ato.gov.au/tax-rates-and-codes/division-7a-benchmark-interest-rate) the uplifted taxable income amounts shown in the tables at 7 and 8 below may have an increasingly important bearing on some Division 7A ITAA 1936 decisions made. This is particularly the case given that a <i>‘tax cut’</i> may also effectively reduce the value of tax deductions (e.g. in scenarios where the relevant Division 7A ITAA 1936 interest is deductible to the shareholder (or shareholder’s associate) borrower).</p>

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Non-exhaustive issues where the taxable income level at which individual tax and Medicare Levy payable equals corporate tax payable may have relevance	
2024/25 and later year Tax Planning Issue	Further Notes
<p>Is there a <i>'tax benefit'</i> when assessing potential risks in relation to taxation integrity rules including, but not limited to, Part IVA and s 100A ITAA 1936?</p>	<p>Part IVA, s 100A ITAA 1936 and numerous other taxation integrity rules generally require a <i>'tax benefit'</i> (or at least a tax benefit purpose for s 100A ITAA 1936) to be present in order for the integrity risk to be present. Subject to the important comments below, arguably if a company's tax payable is at or above one or more associated individuals who may otherwise have been assessed on the amount, this may reduce the risk of a tax benefit being present.</p> <p>Important</p> <p><i>'Tax benefit'</i> is generally a more complex issue than an assessed individual simply having a lower headline tax and Medicare Levy payable amount than a company regarding an initial trust distribution or other assessable income amount.</p> <p>For example, deferral of tax through use of a company (e.g. ahead of a future year distribution to individuals on higher taxable income amounts and tax rates), franking credit benefits and numerous other issues (including, but not limited to, other items included within the long list of items with the Part IVA <i>'tax benefit'</i> definition in s 177C ITAA 1936) can all be <i>'tax benefits'</i> requiring consideration when assessing the risk of a tax integrity rule potentially applying.</p>

As previously noted, the above table is non-exhaustive and is intended to briefly summarise some introductory issues which may make the taxable income level at or below which a resident individual's tax and Medicare Levy payable equates to the flat rate of company tax payable relevant (see pages 7 and 8 for this information regarding companies on a 30% or 25% respectively and page 10 for issues relevant to non-resident individuals). Tax Astute Training clients can also refer to their Client Guide for further information, including our analysis of practical implications when planning for PCG 2021/4 Professional Firm profit allocations from 2024/25 onwards.

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The new 2024/25 Individual Tax Rates

– At what level of Taxable Income will a resident individual pay less than a company taxpayer?

Taxable Income at which a Resident Individual pays exactly 30%

The table below illustrates that the taxable income level at which a residential individual will pay the same amount in tax and Medicare Levy as a company paying a 30% flat rate of tax will rise to \$199,188 taxable income under the proposed new individual tax rates from 2024/25 (see Column B). This is higher (and therefore more favourable) than the current \$165,922 at Column A. It is, however, less favourable than the \$225,929 taxable income which would have been relevant if the original Stage 3 tax cuts had occurred as currently legislated (see Column C). Broadly, tax resident individuals deriving less total taxable income than the amounts at Column A or B (as relevant) will pay less up-front tax than a company with a 30% tax rate. Importantly, however, numerous additional issues and factors should also be considered for tax and other planning purposes (see page 4 onwards for some non-exhaustive examples).

Taxable Income at which a Resident Individual pays exactly 30%* <i>(i.e. tax and Medicare Levy paid is the same as the 30% company tax rate)</i>			
	A 2023/24 and earlier	B Newly proposed 2024/25 Rates <i>(subject to Royal Assent)</i>	C <i>Result which WOULD have been relevant under Original Stage 3 rates from 2024/25</i>
Taxable Income Amount (A)	\$165,922	\$199,188	\$225,929
Individual Tax	\$46,459	\$55,773	\$63,260
Individual Medicare Levy @ 2%	\$3,319	\$3,984	\$4,519
Individual Total Payable on A (B)	\$49,778	\$59,757	\$67,779
Company Tax on A @ 30% (C) <i>(same amount as B)</i>	\$49,778	\$59,757	\$67,779

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*NOTE – calculated amounts may be subject to minor rounding variations (amounts are generally rounded up to next whole dollar amount)

TIP

- **Broadly, if an individual has a taxable income at or below the amounts shown above at columns A and B then the up-front tax and Medicare levy will be at or below the amount paid by a company with a 30% tax rate**
- **The above table is relevant to all medium-large business companies with \geq \$50 million aggregated turnover and/or for companies with any aggregated turnover and $>$ 80% Base Rate Entity (BRE) Passive Income (as defined in sections (ss) 23AA and 23AB of the *Income Tax Rates Act 1986 (ITRA 1986)*).**
- **See page 8 below for details regarding Small Business Entity/BRE companies which are subject to a 25% corporate tax rate due to having both $<$ \$50 Million aggregated turnover and \leq 80% BRE Passive Income.**
- **See page 10 for overview details regarding individuals who are not Australian tax residents.**
- **The Table at page 3 and the Government Fact Sheet tables can be used to check the above individual tax calculations (see page 3 for information regarding the differences between the Tables).**

Taxable Income at which a Resident Individual pays exactly 25%

The table below illustrates that the taxable income level at which a residential individual will pay the same up-front amount in tax and Medicare Levy as a SBE/BRE company paying a 25% flat rate of tax (due to having $<$ \$50 Million Aggregated turnover and \leq 80% BRE Passive Income as defined in sections (ss) 23AA and 23AB of the *Income Tax Rates Act 1986*) will rise to \$131,600 taxable income under the proposed new individual tax rates from 2024/25 (see **Column B**). This is higher (and therefore more favourable) than the current \$100,348 applicable in 2023/24 and earlier at Column A. It is noteworthy that the Column B amount is also more favourable than the \$120,115 taxable income which would have been relevant if the original Stage 3 tax cuts had proceeded as currently legislated (see Column c). This reflects, the skewing of revised tax cut benefits from 2024/25 to lower income thresholds than the originally proposed Stage 3 cuts. Broadly, tax resident individuals deriving less total taxable income than the amounts at Column A or B (as relevant) will pay less in up-front tax and Medicare levy than a SBE/BRE company with a 25% tax rate. Importantly, however, numerous additional issues and factors should also be considered for tax and other planning purposes (see page 4 onwards for some non-exhaustive examples).

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Taxable Income at which a Resident Individual pays exactly 25%* (i.e. tax and Medicare Levy paid is the same as the 25% SBE/BRE company tax rate)			
	A 2023/24 and earlier	B Newly proposed 2024/25 Rates (subject to Royal Assent)	C Result which WOULD have been relevant under Original Stage 3 rates from 2024/25
Taxable Income Amount (A)	\$100,348	\$131,600	\$120,115
Individual Tax	\$23,080	\$30,268	\$27,626
Individual Medicare Levy @ 2%	\$2,007	\$2,632	\$2,403
Individual Total Payable on A (B)	\$25,087	\$32,900	\$30,029
SBE/BRE Company Tax on A @ 25% (C) (same amount as B)	\$25,087	\$32,900	\$30,029

*NOTE – calculated amounts may be subject to minor rounding variations (amounts are generally rounded up to next whole dollar amount)

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Expected 2024/25 issues for non-resident individuals

While the Treasury information released on 26 January 2024 primarily focussed on tax resident individual taxpayers, the table below has been produced in relation to non-resident individuals based on the approach to non-resident tax rates applied in Schedule 7 ITRA 1986 (replicated in columns A and C and adjusted at column B to reflect the new individual tax rates details released by treasury on 26 January 2024).

Importantly, as well as the additional tax planning issues explained from page 4, further complexities affecting tax planning for non-resident individuals include, but are not limited to, relevant withholding tax rates, applicable Double Tax Treaty (DTT) Articles and more. In basic terms, however, the following broad comments may be relevant for non-resident individuals:

- currently a non-resident individual will always pay more than even a company on the higher 30% rate (see the 32.5% flat rate at Column A);
- from 2024/25, under the newly announced tax rates, it could be possible for a non-resident to pay the same rate (but not a lower rate) than a company with a 30% flat tax rate up to \$130,000 taxable income (see Column B); but
- had the originally proposed Stage 3 tax cuts proceeded as legislated, then a 30% non-resident individual tax rate would have applied up to an even more favourable \$200,000 taxable income threshold (see Column C).

Non-Resident Individual Tax Rates (NOTE that Medicare Levy & LITO are irrelevant)					
2023/24 and earlier years (A)		2024/25 and later year newly announced tax rates (subject to future Royal Assent) (B)		2024/25 original 'Stage 3' outcomes which WOULD have applied (C)	
Taxable Income (\$)	Tax Calculation	Taxable Income (\$)	Tax Calculation	Taxable Income (\$)	Tax Calculation
0 – 120,000	32.5c per \$1	0 – 130,000	30c per \$1	0 – 200,000	30c per \$1
120,001 – 180,000	\$39,000 + 37% for each \$1 over \$120,000	130,001 – 190,000	\$39,000 + 37% for each \$1 over \$130,000		
≥ 180,000	\$61,200 + 45% for each \$1 over \$180,000	≥ 190,000	\$61,200 + 45% for each \$1 over \$190,000	≥ 200,000	\$60,000 + 45% for each \$1 over \$200,000

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